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IN THE

Supreme Court of the United States

October Term, 1939.

No. [redacted] 21

Bacardi Corporation of America, *Petitioner*,

v.

Rafael Sancho Bonet, Treasurer, *Respondent*,

and

Destileria Serralles, Inc., *Intervenor-Respondent*.

REPLY BRIEF.

Edward S. Rogers,
Thomas Hunt,
Jerome L. Isaacs,
Karl D. Loos,
Preston B. Kavanagh,
Attorneys for Petitioner.

April 17, 1940.

Press of Byron S. Adams, Washington, D. C.

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OCTOBER TERM, 1939.

No. 774.

BACARDI CORPORATION OF AMERICA, *Petitioner,*

v.

RAFAEL SANCHO BONET, TREASURER, *Respondent,*

and

DESTILERIA SERRALLES, INC., *Intervenor-Respondent.*

REPLY BRIEF.

Petition for certiorari was filed on February 29, 1940, within the time specified in the order of the Circuit Court of Appeals staying the mandate. Two briefs in opposition have been filed—one on behalf of respondent, Rafael Sancho Bonet, the Treasurer of Puerto Rico, which was served on petitioner April 11, 1940, and one on behalf of intervenor, Destileria Serralles, Inc., which was served on petitioner April 8, 1940.

Both briefs undertake to argue the merits at considerable length. They contain substantially the same material as the briefs in chief of the same parties in the Circuit Court of Appeals. Little or no mention is made of the public importance of the questions presented. This as we understand the rules is the matter the Court desires to be discussed in the petition and briefs. We endeavored to conform to this requirement.

Our adversaries have not. This reply will discuss briefly the principal arguments of the opposition briefs upon the three main points of the case: the treaty, the Federal Alcohol Act and equal protection.

THE CONFLICT WITH THE INTER-AMERICAN TRADE-MARK CONVENTION.

Intervenor's brief (pp. 10-11, 18-19) argues that no question can arise under the Inter-American Trade-Mark Convention because there are no foreigners involved in the case. The brief for respondent (pp. 41-42), on the other hand, argues that petitioner should be considered as the Cuban Bacardi Company and treated as an alien. Whichever view may be correct, it is obvious (1) that an American citizen is as much entitled to the protection of the treaty as a foreigner, and (2) that the right which petitioner is seeking to protect is the right conferred by the treaty to use a foreign trade-mark. Petitioner derived this right from a Cuban national.

Article 11 of the Convention (p. 30 of Petition) states in part as follows:

> "The use and *exploitation* of trade-marks may be transferred separately for each country, * * * "

By the use of the word "exploitation", the Convention signatories intended to require that each country permit the free use of lawfully acquired trade-marks in the course of lawful trade.

Article 3 of the Convention provides that trade-marks duly registered in one of the contracting states *shall be legally protected in the other contracting states.* Can it be said that the denial of the right to use a trade-mark amounts to legal protection? It must be assumed that commitments under treaties are entered into in good faith.

The very circumstance (use in Cuba) which brings the Bacardi name and trade-marks within the protection of the treaty is made the occasion for their proscription by the statute. Thus there is a direct conflict between the treaty and the statute.

It is a well-recognized rule that treaties are to be liberally construed (*Nielsen* v. *Johnson,* 279 U. S. 47).* A construction that treaty negotiators intended to permit the destruction of the very rights they sought to protect would be a departure from the liberal attitude announced in *Nielsen* v. *Johnson.*

It is equally well recognized that restrictive or penal statutes like this Puerto Rican legislation should be strictly construed.

Whether petitioner is regarded as an American citizen or as a Cuban alien the case calls for a construction of the treaty. There was no necessity for assignment of cross error on the appeal from the District Court to the Circuit Court of Appeals, as suggested by respondent's brief (p. 35). Errors can be assigned only to the decree of the court, which in this case was entirely favorable to petitioner; cross errors are not assignable to the reasons or opinions for such a decree.

Respondent and intervenor admit that there has been no case construing the Convention. This we submit,

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*In that case, Mr. Justice Stone said (at p. 52):

"When a treaty provision fairly admits of two constructions, one restricting, the other enlarging rights which may be claimed under it, the more liberal interpretation is to be preferred * * *, and as the treaty-making power is independent of and superior to the legislative power of the states, the meaning of treaty provisions so construed is not restricted by any necessity of avoiding possible conflict with state legislation, and when so ascertained must prevail over inconsistent state enactments."

shows the need of such a construction. It is necessary at this time only to decide if the question is important enough to be considered by this Court. We, therefore, did not discuss the merits and will not reply in detail to the argument in our adversaries' briefs. (Respondent's brief pp. 8-9, 35-36; intervenor's brief pp. 18-23).

Neither respondent nor intervenor denies that a decision of this Court setting forth the limits of the treaty is of paramount importance. The importance of the question and the international interests involved are such that this Court should consider and decide the matter.

THE CONFLICT WITH THE FEDERAL ALCOHOL ADMINISTRATION ACT.

Brief for respondent (pp. 9-10) contends that the Puerto Rican statute requires the use of petitioner's name on its labels. But section 44 forbids use on a label of any commercial or corporate name which "has been used previously, in whole or in part, directly or indirectly, or in any other manner, anywhere outside the Island of Puerto Rico." Literally construed, this prohibits use of the word "Corporation" and "America," as well as "Bacardi" as part of petitioner's corporate name, since all of these words have been used outside the Island.

The Federal Alcohol Administration Act requires petitioner to display its corporate name on its labels; the Puerto Rican Statute, as we read it, prohibits this.

Here again the question is not now upon the merits of this controversy but whether the importance of the question is such as to require this Court to decide it.

Respondent's brief (pp. 28-35) and intervenor's brief (pp. 23-28) deal with the merits of the

question and with the applicability of the commerce clause to Puerto Rico. The latter point is immaterial since Congress has legislated with respect to commerce in alcoholic liquors from Puerto Rico to the United States as well as within the Island itself. Therefore, the power of the territorial legislature to impost additional or conflicting requirements is less, rather than more, than that of a state legislature. By the Federal Alcohol Act of 1935, Congress has established a complete program for regulating the shipment and labeling of alcoholic liquors, applicable within Puerto Rico as well as on shipments from Puerto Rico to the mainland. The Puerto Rican legislature has no authority whatever to prescribe different or additional restrictions upon such shipping or labeling. The reservation of the Twenty-first Amendment pertains only to shipments into a state or territory from outside, a matter with which the present case is not concerned.

Thus the question presented is a conflict between federal and territorial authority, and is of general interest and national importance. It has not previously been decided. *Ziffrin* v. *Reeves,* 308 U. S. 132, does not refer to the question presented here. No conflict existed between the state and federal regulation. The case related to the power of a state and not of a territory.

The Federal Alcohol Administration Act expressly makes its regulations applicable within Puerto Rico. Therefore, the Federal Alcohol Administration Act establishes a complete regulation for shipments and labeling of alcoholic liquors manufactured in Puerto Rico and transported from there to the continental United States; the territorial legislature has no power to amend or supersede the Act of Congress. We submit that this question of conflict between the Federal Act and

the Puerto Rican statute ought to be decided by this Court.

THE CONFLICT WITH THE EQUAL PROTECTION CLAUSE.

Respondent's brief (pp. 2-3, 13-14, 38-53) and intervenor's brief (pp. 3-4, 12-14) attempt to justify the classification based on use prior to February 1, 1936, as the exemption of a class already established and in

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We think the Court's attention should be called to a variation of translation of section 7 of the Act of May 15, 1937. The section should read as follows:

> Sec. 7.—In regard to trade marks *only*, the provisions of the *Proviso* of Section 44 of Act No. 6, approved June 30, 1936, and which is hereby amended, shall be applicable to such trademarks as shall have been used exclusively in the continental United States by any distiller, rectifier, manufacturer, bottler, or canner of distilled spirits prior to February 1, 1936, provided such trademarks have not been used, in whole or in part, by a distiller, rectifier, manufacturer, bottler, or canner of distilled spirits outside of the continental United States, at any time prior to said date. (Italics ours)

In the English translation as it appears in the certified copy of the Laws of Puerto Rico, First Regular Session of the 14th Legislature of Puerto Rico, February 8-April 15, 1937, the word "only" (italicised in the above quotation) follows the words "shall be applicable". Examination of the Spanish version, however, which is governing, shows that the word "only" should follow the opening phrase as in the quotation above.

The section was incorrectly quoted in the Appendix (p. 28) to petition for certiorari and is incorrectly quoted in the opinion of the Circuit Court of Appeals and at pp. 19 and 68 of respondent's brief, and at p. 37 of intervenor's brief. It is correctly quoted at p. 8 of intervenor's brief.

operation before the restrictive statute was enacted. They state that the first temporary act was enacted May 15, 1936, and that petitioner did not acquire its permit from Puerto Rico until July 20, 1936. They recognize, however, that petitioner qualified to do business in Puerto Rico, receiving a certificate of registration as a foreign corporation on March 31, 1936, and a license on April 6, 1936. They also recognize that petitioner's federal permit under which it operated in Pennsylvania was amended on March 28, 1936, to authorize operation in Puerto Rico, that a building was leased and that some $45,000 had been expended between April 6 and May 15, 1936, when the restrictive statute was first enacted.

Respondent admits (p. 37) that a substantial question is presented under the equal protection clause, but attempts to overcome these facts by contending (pp. 2-3, 13-14) that, because of certain provisions in the Organic Act for Puerto Rico the bill which became the law of May 15, 1936, must have been introduced in the legislature on or before March 21, 1936. The mere introduction of a bill can not be given the same effect as its enactment. It can not be assumed that the legislator introducing a bill controls the vote of the entire legislature. The record shows that the petitioner's vice-president, Mr. Bosch, arrived in Puerto Rico on February 22, 1936, that he concluded to establish a plant in Puerto Rico, and that arrangements for lease of the building had been completed some time before March 21, 1936 (Finding 13, R. 111-12; R. 140, 305-7). So, while petitioner was not actually in operation when the bill was introduced, it was established in the sense that the decision had been made to operate in Puerto Rico, steps to that end had been taken, obligations had been incurred, and commitments had been made. Doubtless

petitioner's activities prompted the introduction of the bill. By the time the statute was enacted, petitioner was established and in operation and had made a substantial investment.

Therefore, the classification adopted by the Puerto Rican legislature, with February 1, 1936, as the determinative date, was not equivalent to a classification of before and after the passage of the statute. What the legislature really did was to establish three arbitrary classes:

1. Manufacturers established in Puerto Rico prior to February 1, 1936;

2. Those established in Puerto Rico after February 1, 1936, but prior to enactment of the statute of May 15, 1936;

3. Those who might become established after the enactment of the statute.

Members of class 1 are permitted to use their trademarks and names whether foreign or domestic. Members of classes 2 and 3 are not permitted to use foreign marks or names. But petitioner was and can be the only member in class 2, because no other person sought to establish itself in Puerto Rico prior to the enactment of the first statute. There can never be any other person in this class. The class was fixed by the enactment with petitioner as its only member. It is this discrimination between class 1 and class 2, as described above, which violates the equal protection clause of the Organic Act. Petitioner, like other manufacturers who were operating prior to February 1, 1936, was established in Puerto Rico before the first statute was enacted. It was entitled to equal treatment with them. The selection of February 1, 1936, as the dividing line

was arbitrary and without reasonable relation to any object of the statute except to exclude petitioner from Puerto Rico. The District Court found:

> "20. Plaintiff appears to be the only company unfavorably affected by the provisions of the several acts as to the use of labels or trademarks, although there are at least three other companies now operating in Puerto Rico who use on their products trademarks and labels which were previously, in whole or in part, used outside the Island of Puerto Rico." (R. 114)

It was a palpable discrimination in defiance of the equal protection clause of the Organic Act.

The cases upholding state liquor statutes which discriminate in favor of residents of the state as against persons shipping into the state, cited in respondent's brief at pages 38-39, are not in point. Those cases deal with classifications set up by legislatures in regulating the importation of liquor *into* the state. They all rest on the effect of the Twenty-first Amendment which refers only to "the transportation or importation into any state, territory, * * * for delivery or use therein of intoxicating liquors." It does not refer to manufacture within or exportation from a state or territory.

This case presents no question of transportation or importation of liquors into Puerto Rico for delivery or use therein; it deals with something quite different—the right to manufacture in, and export from, a possession of the United States. The prior holdings of this court that the Twenty-first Amendment with respect to liquor freed the states from restrictions upon their police power to be found in other provisions of the Constitution, do not apply.

Ziffrin v. *Reeves,* 308 U. S. 132, frequently cited by the briefs in opposition, is inferentially authority for

petitioner's position. That case dealt with transportation of liquors from Kentucky to points outside. The Kentucky statute limited the right to transport intoxicating liquors both intrastate and interstate to common carriers. This was held to be a reasonable method of controlling liquor traffic. But all common carriers were given the same privilege and the court recognized the necessity for compliance with the equal protection rule with respect to the transportation of liquor from the state.

The court held that a state may absolutely prohibit the manufacture of intoxicants and their transportation, sale and possession and "further she may adopt measures reasonably appropriate to effectuate these inhibitions and exercise full police authority in respect of them." Describing the statute, the court went on to say:

> "Kentucky has seen fit to permit manufacture of whiskey only upon condition that it be sold to an indicated class of customers and transported in definitely specified ways. These conditions are not unreasonable and are clearly appropriate for effecting the policy of limiting a traffic in order to minimize well-known evils and secure payment of revenue. * * *"

The reasonableness of the classification is thus placed squarely in issue. The court recognized its necessity even in construing a liquor statute enacted under the broad powers granted by the Twenty-first Amendment, insofar as the statute referred to matters other than the transportation or importation into a state for delivery or use therein. The court then held there had been no violation of the equal protection clause because the classification was reasonable, saying:

"The record shows no violation of Equal Protection. A licensed Common Carrier is under stricter control than an ordinary contracting carrier and may be entrusted with privileges forbidden to the latter."

If the Kentucky statute, instead of limiting the transportation of intoxicating liquors to common carriers, had stated boldly and bluntly that the Louisville and Nashville Railroad, alone, among all common carriers, should not transport intoxicants, we submit it would have been held that such a statute denied equal protection. We take the liberty of doubting if the court would have held such a classification to be a reasonable and just one. In the words of Mr. Justice Holmes in *McFarland* v. *American Sugar Refining Co.,* 241 U. S. 79, 86:

> "The statute bristles with severities that touch the plaintiff alone, and raises many questions that would have to be answered before it would be sustained. We deem it sufficient to refer to those that were mentioned by the District Court: a classification which, if it does not confine itself to the American Sugar Refinery, at least is arbitrarily beyond possible justice, * * *"

The intervenor (pp. 15-16) attempts to justify the discrimination against petitioner as one between well-known marks or names and marks or names which are less well known, citing *Borden's Farm Products Company* v. *Ten Eyck,* 297 U. S. 251, and *Old Dearborn* v. *Seagram,* 299 U. S. 183. What is needed, however, is justification for a discrimination between all trademarks used prior to February 1, 1936 (whether well known or not) and the well-known name and trademarks of petitioner.

Neither of the cases cited proscribed the use of any name or mark because it was well known. The first

authorized a higher minimum price on well-known brands of milk, which was a continuation of an established trade practice. The second furnished additional protection for trade-marks, rather than discrimination against them, by sustaining as valid the Illinois Fair Trade Act making actionable the injurious sale at cut prices of goods bearing trade-marks. Neither case is authority for the kind of discrimination contained in the Puerto Rican statute.

On the other hand, *Mayflower Farms* v. *Ten Eyck*, 297 U. S. 266, condemned a classification which discriminated between milk dealers engaged in business before the passage of the act and those entering the business afterwards. The discrimination here is much greater since the date selected by the Puerto Rican legislature made the statute retroactive against this petitioner alone, whereas in the *Mayflower Farms* case the distinguishing date was the effective date of the act. The reasons in support of the discrimination against newcomers (that is, those entering the field after a statute becomes effective) so forcibly stated in Mr. Justice Cardozo's dissenting opinion do not warrant the kind of discrimination created by the Puerto Rican statute. The *ex post facto* character of the enactment obviously indicated the purpose to catch someone who was already in the field. Petitioner was that one and the only one.

Sperry & Hutchinson v. *Rhodes*, 220 U. S. 502, also cited by intervenor, applied only to photographs taken after the enactment of the statute and did not apply retroactively as does the Puerto Rican statute.

In the *Ziffrin* case the selection of common carriers as the exclusive agencies for transporting intoxicants was reasonably related to the objective of the Kentucky statute to channelize the liquor traffic and there-

by protect the public health and morals and the public revenue. Here the selection of the retroactive date of February 1, 1936 as the basis of classification for use of foreign trade-marks and names on distilled spirits has no reasonable relation to any suggested objective of the statute except that of excluding petitioner from Puerto Rico.

Brief for respondent (pp. 47-52) speculates at considerable length upon the objectives of the Puerto Rican legislature. It suggests the purpose to check "financial absenteeism". Even if such a purpose might justify complete exclusion of nonresidents from the liquor business in Puerto Rico or the exclusion of those entering the field after the enactment of the statute, it cannot justify the selection of February 1, 1936 as an arbitrary date before which established operations shall be permitted to continue and after which persons, even though established, must discontinue. The same may be said of the suggested purpose of protecting the Island's "renascent liquor industry".

The suggestion (at pp. 50-52) that the legislature was protecting Puerto Rican industry against the implication of inferiority because of the use of a silver label on Puerto Rican Bacardi and a gold and a white label on Cuban Bacardi is entirely speculative and without any support in the language of the statute or in the record. No such implication from the Bacardi labels can possibly be warranted. Even if such a purpose did actuate the legislature it would not justify proscribing foreign marks used after February 1, 1936 and wide open permission to use all those used prior thereto. That date has no reasonable relation to the determination of which marks might offend the test of implying inferiority to Puerto Rican products.

Respondent's brief (pp. 23, 40-42) also contends that petitioner should be considered as an alien and that an alien is not entitled to the benefit of the equal protection clause. Petitioner is, of course, an American corporation, organized in the State of Pennsylvania. But even if it were treated as an alien, it would be entitled to the benefits of the equal protection clause of the Fourteenth Amendment (*Truax* v. *Raich,* 239 U. S. 33). The situation can be no different with respect to the equal protection clause of the Organic Act of Puerto Rico.

Any doubt that there might be in this case as to the right of an alien to enjoy equal protection is removed by the Trade Mark Convention which guarantees alien names and marks (of a signatory country) the same protection as granted to those of American nationals.

CONCLUSION.

This legislation in prohibiting the use of foreign trade-marks and trade names after the arbitrary date of February 1, 1936 has no reasonable relation to any object to protect the health, safety or morals, the public revenue or the economic well being of the people of Puerto Rico. In selecting this arbitrary date, the legislature reached back to catch someone already established, recognizing that the object of excluding the particular person at whom the legislation was aimed could not be accomplished except by retroactive legislation.

The person so caught was petitioner and no one else. Certainly a statute which boldly stated that the Bacardi name and trade-marks alone, of those in use prior to the enactment of the statute, could no longer be used would be held violative of the equal protection clause.

That is the result of the Puerto Rican statute as well as its undoubted object. Such a statute should not be permitted to become effective.

Respectfully submitted,

EDWARD S. ROGERS,
THOMAS HUNT,
JEROME L. ISAACS,
KARL D. LOOS,
PRESTON B. KAVANAGH,
Attorneys for Petitioner.

April 17, 1940.

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